

COUNTY OF LOS ANGELES

MARVIN J. SOUTHARD, D.S.W.

Director

SUSAN KERR

Chief Deputy Director

RODERICK SHANER, M.D.

Medical Director



BOARD OF SUPERVISORS

GLORIA MOLINA

YVONNE BRATHWAITE BURKE

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MICHAEL D. ANTONOVICH

DEPARTMENT OF MENTAL HEALTH

<http://dmh.co.la.ca.us>

550 SOUTH VERMONT AVENUE, LOS ANGELES, CALIFORNIA 90020

Reply To: (213) 738-4601

Fax No.: (213) 386-1297

August 26, 2004

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

44

SEP 07 2004

Violet Varona-Lukens
VIOLET VARONA-LUKENS
EXECUTIVE OFFICER

Dear Supervisors:

APPROVAL OF SETTLEMENT AGREEMENT WITH STIRLING ACADEMY, INC. (SUPERVISORIAL DISTRICT 3) (3 VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

Approve and instruct the Director of Mental Health or his designee to prepare, sign, and execute a Settlement Agreement with a Mental Health Services-Legal Entity Contractor, Stirling Academy, Inc. dba Stirling Behavioral Health Institute (Stirling), in accordance with the Settlement Agreement format (Attachment I), that is substantially similar to a previous Board-approved format. This Settlement Agreement is a recovery of County funds paid in excess of Stirling's actual earned amount for services rendered in Fiscal Year 2000-2001. Effective upon your Board's approval, this Agreement will allow the Contractor to repay its debt of \$328,086.25 to the County over a period of twelve (12) months, in lieu of the three (3) months stipulated in its contract financial provision.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

Your Board's approval of the Settlement Agreement will allow Stirling to repay its debt of \$328,086.25 to the County over a twelve-month period. Because the repayment period is twelve (12) months, we are not recommending that interest be charged. This extension will mitigate an immediate adverse cash flow impact on the subject contractor so as to enhance the probability of recovery of County funds and to avoid any potential adverse impact on the level of its services provision.

Effective upon Board approval, the County will receive from the contractor a monthly payment of \$27,340.52 for the first eleven (11) months and \$27,340.53 for the twelfth month, for a total repayment of \$328,086.25, with no interest charges.

Implementation of Strategic Plan Goals

The recommended action is consistent with the principles of the Countywide Strategic Plan Programmatic Goal No. 4, "Fiscal Responsibility." Board approval will avoid placing immediate adverse cash flow problems on the contractor and enhance the probability of recovery of County funds.

FISCAL IMPACT/FINANCING

There is no fiscal impact on the Fiscal Year (FY) 2004-2005 budget. This Settlement Agreement is a recovery of County funds paid in excess of Stirling's actual earned amount for services rendered in FY 2000-2001. The amount of \$328,086.25 owed is determined through the FY 2000-2001 Short-Doyle/Medi-Cal (SD/MC) reconciliation process performed in compliance with State requirements for Medi-Cal mental health services contractors.

The State has effected a SD/MC reconciliation for FY 2000-2001. This means that the Department of Mental Health (DMH) paid the State funds owed by Stirling. The funds used to repay the State were realignment funds. Accordingly, there are less realignment funds for the provision of services unless DMH can restore these funds through collection from Stirling.

Stirling will repay its debt of \$328,086.25 in a monthly installment of \$27,340.52 for eleven (11) months and \$27,340.53 for the twelfth month, with no interest charges on the unpaid balance. The repayment method is in the form of offset against monthly claims for reimbursement and will continue until the entire balance has been repaid. In the event that the monthly claim for reimbursement is insufficient to cover the monthly repayment, the contractor will be required to remit the difference to DMH.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The State Department of Mental Health (SDMH) requires an annual cost report from each contractor who provides SD/MC mental health services. Based on the submitted cost report, a State SD/MC Reconciliation Settlement Report is issued which determines the amount earned by the contractor based on total approved SD/MC allowable units of services. In accordance with the earned amount determined by the Reconciliation Report, County DMH initiates a cash settlement with the contractor, either to pay additional funds or to recover unearned funds from the contractor.

The DMH cash settlement with Stirling is to recover unearned County funds in the amount of \$328,086.25 paid in FY 2000-2001. The original unearned amount was \$483,256. Stirling has repaid \$155,169.75, leaving a balance of \$328,086.25. According to the standard DMH Legal Entity Agreement repayment provision, the contractor should repay the entire amount in a period not to exceed three (3) months.

To avoid an adverse cash flow impact, the County and Stirling intend to enter into a Settlement Agreement to extend the repayment period to twelve (12) months with no interest charges.

This Settlement Agreement is in keeping with recommendations made to your Board in David E. Janssen's February 3, 2003 Board letter entitled, "Settlement Agreements and the Cash Flow Loan Program" (Attachment II). Page 2, Paragraph 1 of "Timely Repayment of Settlement Agreements" section states: "Should the provider exceed the three month period, DMH negotiates a repayment settlement agreement. Any repayment settlement agreements must be approved by the Board." Paragraph 2 states: "Repayment settlement agreements help providers mitigate an immediate adverse cash flow impact, thereby enhancing the probability of recovery of County funds. Because this situation often occurs with smaller community-based agencies, many settlement agreements do not provide for penalties or interest payments on the unpaid balance." Page 3, Paragraph 1 states: "A requirement that contractors pay interest if the repayment period exceeds one year. That is, if the provider completes repayment within one year, interest charges will be waived." Because Stirling's Repayment period is twelve (12) months, we, therefore, recommend there be no interest charges.

CONTRACTING PROCESS:

This subject does not apply.

IMPACT ON CURRENT SERVICES

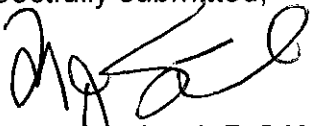
The extension of repayment period will mitigate an immediate cash flow impact on the contractor and thus avoid potential adverse change on the level of services provisions.

The Honorable Board of Supervisors
August 26, 2004
Page 4

CONCLUSION

The Department of Mental Health will need one (1) copy of the adopted Board's action. It is requested that the Executive Officer of the Board notifies the Department of Mental Health's Contracts Development and Administration Division at (213) 738-4684 when this document is available.

Respectfully submitted,



Marvin J. Southard, D.S.W.
Director of Mental Health

MJS:RK:LQ:CC

Attachments (2)

c: Chief Administrative Officer
County Counsel
Chairperson, Mental Health Commission

SETTLEMENT AGREEMENT

ATTACHMENT I

THIS AGREEMENT is made and entered into this ____ day of _____, 200____, and between the County of Los Angeles (hereafter "County") and _____ (hereafter "Contractor").

Business Address:

WHEREAS, for Fiscal Year _____, County and Contractor entered into a Mental Health Services Agreement (County Agreement Number _____) under which Contractor provides to qualified persons in Los Angeles County certain mental health services contemplated and authorized by the former Short-Doyle Act, California Welfare and Institutions Code Section 5600 et seq.; and

WHEREAS, hereafter, the Mental Health Services Agreement herein above set forth shall be referred to as "Agreement"; and

WHEREAS, under the Agreement, Contractor currently owes County a determined sum at a maximum of _____ DOLLARS (\$_____) for Fiscal Year(s) _____; and

WHEREAS, said Fiscal Year amounts may increase or decrease depending upon: (1) the outcome of State and/or Federal audits, settlements and/or reconciliations for each of Fiscal Year(s) _____ and (2) the outcome of appeals of State and/or Federal audits, settlements and/or reconciliations for each of Fiscal Year(s) _____; and

WHEREAS, hereafter, the total sum owed by Contractor to County shall be referred to as "Contractor's Debt"; and

WHEREAS, Contractor's Debt for Fiscal Year(s) _____ resulted from not providing enough services and the Federal Financial Participation (FFP) required giveback under the Agreement and audit disallowed costs and services, under the Agreement; and

1 WHEREAS, County and Contractor desire to enter into this Agreement in order to set forth
2 the agreed plan by which Contractor shall repay Contractor's Debt to the County; and

3 WHEREAS, County believes it is in the best interest of the people of the County of Los
4 Angeles for Contractor to repay Contractor's Debt to the County in the manner described in this
5 Agreement; and

6 WHEREAS, the following terms, as used in this Agreement, shall have the following
7 meanings:

8 A. "Day(s)" means calendar day(s) unless otherwise specified;

9 B. "Director" means County's Director of Mental Health or his authorized designee;

10 C. "DMH" means County's Department of Mental Health;

11 D. "Fiscal Year" means County's Fiscal Year which commences on July 1 and ends the
12 following June 30; and

13 E. "State" means the State of California.

14 NOW, THEREFORE, Contractor and County agree as follows:

15 1. TERM: This Agreement shall commence on the date of Board approval, and shall continue in
16 full force and effect thereafter until County's Board of Supervisors certifies, in writing, that
17 Contractor has fully repaid to County all of Contractor's Debt, as determined by County, and has
18 satisfied all other obligations under this Agreement, as determined by County.

19 This Agreement may be terminated by County without cause at any time by giving at least
20 thirty days prior written notice to Contractor. Other termination provisions for County are found in
21 Paragraphs 7 (DELEGATION AND ASSIGNMENT), 11 (TERMINATION FOR INSOLVENCY), and 12
22 (TERMINATION FOR DEFAULT). Any termination of this Agreement shall be approved by County's
23 Board of Supervisors.

24 In the event that this Agreement is terminated by County, then, upon the issuance of the
25 notice of termination, the total outstanding Contractor's Debt, as determined by County, shall be
26 immediately due and payable by Contractor to County and shall be: (1) repaid by Contractor to

County by cash payment upon demand and/or (2) at the sole discretion of County, deducted from any amounts due by County to Contractor, whether due under a written Agreement for mental health services or otherwise.

2. ADMINISTRATION: Director shall have the authority to administer this Agreement on behalf of County. Contractor shall designate in writing a Settlement Manager who shall function as liaison with County regarding Contractor's performance hereunder.

3. REPAYMENT OF CONTRACTOR'S DEBT:

A. Contractor shall repay Contractor's Debt to County at the repayment rate of _____ DOLLARS (\$_____) during FY(s) _____, provided that Contractor shall repay County more than such annual amounts during such FY in accordance with Paragraph 4 (INTEREST CHARGES AND ACCELERATED WITHHOLDING).

B. For FY(s) _____, Contractor shall pay County by cash payment towards repayment of Contractor's Debt, _____ DOLLARS (\$_____), the total amount described in Subparagraph A, at the rate of _____ DOLLARS (\$_____) per month, commencing repayment upon Board approval, with the exception of the last payment being _____ DOLLARS (\$_____).

Notwithstanding any other provision of this Agreement, in lieu of Contractor's cash payment of _____ DOLLARS (\$_____) per month, with the exception of the last payment being _____ DOLLARS (\$_____) to County, County may, in sole discretion, withhold _____ DOLLARS (\$_____) per month from any monthly billing submitted by Contractor under any written Agreement Contractor may have with County for mental health services during the particular FY and/or from any other amounts due by County to Contractor, provided that County shall withhold more than _____ DOLLARS (\$_____) per month, with the exception of the last payment being _____

1 _____ DOLLARS (\$_____) pursuant to Paragraph 4 (INTEREST
2 CHARGES AND ACCELERATED WITHHOLDING).

3 C. Notwithstanding any other provision of this Agreement, in the event that County
4 determines during any FY that Contractor has failed to make cash payment to County as described in
5 Subparagraph B or in Paragraph 4 (INTEREST CHARGES AND ACCELERATED WITHHOLDING) and
6 that there is no written Agreement between County and Contractor for mental health services and
7 no amounts due by County to Contractor from which the withhold amounts described in
8 Subparagraph B or in Paragraph 4 (INTEREST CHARGES AND ACCELERATED WITHHOLDING) can
9 be made, then the total outstanding Contractor's Debt, as determined by County, shall be
10 immediately due and payable by Contractor to County, and Contractor shall repay County
11 immediately by cash payment upon demand.

12 D. In the event of future audits, settlements, and/or reconciliations that result in money
13 owed to Contractor for the FY(s) covered by this Agreement, such amount(s) shall be offset up to
14 the outstanding balance of the Contractor's liability to County under this Agreement.

15 E. Pursuant to California Code of Civil Procedure Section 360.5, Contractor hereby
16 waives all statutes of limitation upon Contractor's Debt as described in this Agreement. Whenever
17 requested by County, Contractor shall promptly execute and deliver to County all instruments or
18 other documents requested by County, including, but not limited to, additional written waivers,
19 relating to Contractor's waiver of all statutes of limitation upon Contractor's Debt during the term of
20 this Agreement.

21 4. INTEREST CHARGES AND ACCELERATED WITHHOLDING:

22 A. Interest Charges: In the event Contractor fails to pay County any amounts due to
23 County under this Agreement within five days after the due date as determined by County, then: (1)
24 Interest Charges shall be assessed at one and one-half percent (1.5%) per month on the delinquent
25 amount owed and (2) at County's sole option, the entire Contractor's Debt then remaining unpaid
26 shall become immediately payable and shall carry Interest Charges at the same rate.

1 Interest Charges shall be considered part of Contractor's Debt. Contractor shall pay County
2 the Interest Charges due by cash payment upon demand. In lieu of Contractor's cash payment of
3 the Interest Charges, County may, in its sole discretion, withhold the Interest Charges from any
4 billings submitted to County by Contractor under any written agreement Contractor may have with
5 County and/or from any other amounts due by County to Contractor. County may, in its sole
6 discretion, withhold either: (1) the total of the Interest Charges at one time or (2) a portion of the
7 Interest on a prorata basis.

8 Interest Charges due under this Paragraph 4 shall be separate from, and in addition to, the
9 monthly repayment amounts due as described in Paragraph 3 (REPAYMENT OF CONTRACTOR'S
10 DEBT), Subparagraph A.

11 Any payment by Contractor shall be applied first to Interest Charges computed in full to the
12 date of such payments, and the remainder to principal.

13 B. Accelerated Withholding: County shall withhold from any additional County, State,
14 and/or Federal funds due to the Contractor, as determined subsequent to this Agreement, for
15 services and/or activities rendered by Contractor during the same fiscal year(s) for which this
16 Settlement liability was incurred by Contractor. Such accelerated withholding shall be in the entirety
17 of such additional amount due to Contractor, not to exceed the remaining outstanding balance of the
18 Contractor's liability to County under this Agreement.

19 5. LIABILITY FOR LEGAL COSTS: Contractor may become subject to legal action for any
20 breach of this Agreement, and in such event, Contractor shall pay all court costs, County's expenses
21 for the enforcement of the judgment, and County's Attorneys fees.

22 6. INDEMNIFICATION: Contractor shall indemnify, defend and hold harmless County, and its
23 Special Districts, elected and appointed officers, employees, and agents from and against any and all
24 liability, including, but not limited to, demands, claims, actions, fees, costs, and expenses (including
25 attorney and expert witness fees), arising from or connected with Contractor's acts and/or omissions
26 arising from and/or relating to this Agreement.

1 7. DELEGATION AND ASSIGNMENT: Contractor shall not delegate its duties or assign its
2 rights under this Agreement, or both, either in whole or in part, without the prior written consent of
3 County. Any prohibited delegation or assignment shall be null and void and shall constitute a
4 material breach of this Agreement upon which County may terminate this Agreement.

5 8. GOVERNING LAW, JURISDICTION AND VENUE: This Agreement shall be governed by, and
6 construed in accordance with, the laws of the State of California. Contractor agrees and consents
7 to the exclusive jurisdiction of the courts of the State of California for all purposes regarding this
8 Agreement and further agrees and consents that venue of any action brought hereunder shall be
9 exclusively in the County of Los Angeles, California.

10 9. COMPLIANCE WITH APPLICABLE LAW:

11 A. Contractor shall comply with all Federal, State, and local laws, ordinances, rules,
12 regulations, guidelines, and directives applicable to its performance hereunder. Further, all provisions
13 required thereby to be included in this Agreement are hereby incorporated herein by reference.

14 B. Contractor shall indemnify and hold harmless County from and against any and all
15 liability, damages, costs or expenses, including, but not limited to, defense costs and attorneys'
16 fees, arising from or related to any violation on the part of Contractor, its officers, employees, or
17 agents, of any such Federal, State or local laws, ordinances, rules, regulations, guidelines, or
18 directives.

19 10. THIRD PARTY BENEFICIARIES: Notwithstanding any other provision of this Agreement, the
20 parties do not in any way intend that any person or entity shall acquire any rights as a third party
21 beneficiary of this Agreement.

22 11. TERMINATION FOR INSOLVENCY:

23 A. County may terminate this Agreement forthwith in the event of the occurrence of
24 any of the following:

25 (1) Insolvency of Contractor: Contractor shall be deemed to be insolvent if it has
26 ceased to pay its debts for at least sixty days in the ordinary course of business or cannot pay its

1 debts as they become due, whether or not a petition has been filed under the Federal Bankruptcy
2 Code and whether or not Contractor is insolvent within the meaning of the Federal Bankruptcy Code.

3 (2) The filing of a voluntary or involuntary petition regarding Contractor under the
4 Federal Bankruptcy Code.

5 (3) The appointment of a Receiver or Trustee for Contractor.

6 (4) The execution by Contractor of a general assignment for the benefit of
7 creditors.

8 B. The rights and remedies of County provided in this Paragraph 11 shall not be
9 exclusive and are in addition to any other rights and remedies provided by law or under this
10 Agreement.

11 12. TERMINATION FOR DEFAULT:

12 A. County may, by written notice of default to Contractor, terminate this Agreement in
13 any one of the following circumstances:

14 (1) If, as determined in the sole judgment of County, Contractor fails to perform
15 within the times specified in this Agreement or any extension thereof as County may authorize in
16 writing; or

17 (2) If, as determined in the sole judgment of County, Contractor fails to perform
18 and/or comply with any of the other provisions of this Agreement, or so fails to make progress as to
19 endanger performance of this Agreement in accordance with its terms, and in either of these two
20 circumstances, does not cure such failure within a period of five days (or such longer period as
21 County may authorize in writing) after receipt of notice from County specifying such failure.

22 B. The rights and remedies of County provided in this Paragraph 12 shall not be
23 exclusive and are in addition to any other rights and remedies provided by law or under this
24 Agreement.

25 /

26 /

1 13. SEVERABILITY: If any provision of this Agreement or the application thereof to any person
2 or circumstance is held invalid, the remainder of this Agreement and the application of such provision
3 to other persons or circumstances shall not be affected thereby.

4 14. CAPTIONS AND PARAGRAPH HEADINGS: Captions and paragraph headings used in this
5 Agreement are for convenience only and are not a part of this Agreement and shall not be used in
6 construing this Agreement.

7 15. ALTERATION OF TERMS: No addition to, or alteration of, the terms of this Agreement,
8 whether by written or oral understanding of the parties, their officers, employees or agents, shall be
9 valid and effective unless made in the form of a written amendment to this Agreement which is
10 formally approved and executed by the parties in the same manner as this Agreement.

11 16. ENTIRE AGREEMENT: The body of this Agreement and County's letter to Contractor dated
12 _____, which is attached hereto as Exhibit A and incorporated herein by reference,
13 shall constitute the complete and exclusive statement of understanding between the parties which
14 supersedes all previous agreements, written or oral, and all other communications between the
15 parties relating to the subject matter of this Agreement. In the event of any conflict or
16 inconsistency between the body of this Agreement and Exhibit A, such conflict or inconsistency shall
17 be resolved by giving precedence to the body of this Agreement.

18 17. WAIVER: No waiver by County of any breach of any provision of this Agreement shall
19 constitute a waiver of any other breach of such provision. Failure of County to enforce at any time,
20 or from time to time, any provision of this Agreement shall not be construed as a waiver thereof.
21 The rights and remedies set forth in this Paragraph 17 shall not be exclusive and are in addition to
22 any other rights and remedies provided by law or under this Agreement.

23 18. CONTRACTOR'S OFFICES: Contractor shall notify in writing DMH's Contracts Development
24 and Administration Division, and any other County office(s) as identified in Paragraph 20 (NOTICES),
25 of any change in its business address, as shown on page I of this Agreement, at least thirty days
26 prior to the effective date thereof.

1 19. AUTHORIZATION WARRANTY: Contractor represents and warrants that the person
2 executing this Agreement for Contractor is an authorized agent who has actual authority to bind
3 Contractor to each and every term, condition, and obligation of this Agreement and that all
4 requirements of Contractor have been fulfilled to provide such actual authority.

5 20. NOTICES: All notices or demands required or permitted to be given under this Agreement
6 shall be in writing and shall be hand delivered with signed receipt or mailed by first class, registered
7 or certified mail, postage pre-paid, addressed to the parties at the following addresses and to the
8 attention of the persons named. Director shall have the authority to execute all notices or demands
9 which are required or permitted by County under this Agreement. Addresses and persons to be
10 notified may be changed by either party by giving ten days prior written notice thereof to the other
11 party.

1 To Contractor: _____
2 _____
3 _____
4 Attention: _____
5 _____
6 To County: (1) Department of Mental Health _____
7 550 S. Vermont Avenue _____
8 Los Angeles, CA 90020 _____
9 Attention: Marvin J. Southard, D.S.W., Director _____
10 _____
11 (2) Department of Mental Health _____
12 550 S. Vermont Avenue _____
13 Los Angeles, CA 90020 _____
14 Attention: Gurubanda Singh Khalsa _____
15 Director of Financial Services _____
16 _____
17 (3) Department of Mental Health _____
18 550 S. Vermont Avenue _____
19 Los Angeles, CA 90020 _____
20 Attention: Richard Kushi, Chief _____
21 Contracts Development and Administration Division _____
22 /
23 /
24 /
25 /
26 /

1 IN WITNESS WHEREOF, the Board of Supervisors of the County of Los Angeles has caused
2 this Agreement to be subscribed by County's Director of Mental Health, and Contractor has caused
3 this Agreement to be subscribed in its behalf by its duly authorized officer, the day, month, and year
4 first above written.

5
6 COUNTY OF LOS ANGELES
7
8
9

10 By _____
11 MARVIN J. SOUTHARD, D.S.W.
12 Director of Mental Health
13

14
15 _____
16 CONTRACTOR
17

18
19 APPROVED AS TO FORM
20 OFFICE OF THE COUNTY COUNSEL
21

22 By _____

23 Name _____

24 Title _____

25 (AFFIX CORPORATE SEAL HERE)
26

27 APPROVED AS TO CONTRACT
28 ADMINISTRATION:
29
30 DEPARTMENT OF MENTAL HEALTH
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32
33
34 By _____
35 Chief, Contracts Development and
36 Administration Division
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KT:ZIP:SETTLE.AGMT.
08/25/2004

Contractor Name: The Guidance Center

Legal Entity Number: 00191

DMH Legal Entity Agreement

Attachment II Page 2 of 2

Agreement Period: July 1, 2004 through June 30, 2007

The Rate Summary - 1

Fiscal Year: 2004-2005

MENTAL HEALTH SERVICES		Mode of Service	Service Function Code (SFC) Range	Provisional Rates Negotiated NR	Provisional Rates Cost Reimb CR	Provider Numbers
A. 24-HOUR SERVICES						
Hospital Inpatient		05	10 - 18			
Hospital Administrative Day		05	19			
Psychiatric Health Facility (PHF)		05	20 - 29			
SNF Intensive		05	30 - 34			
IMD/STP Basic (No Patch)	Beds 1-59	05	35			
	Beds 60 & over	05	35			
Patch for IMD		05	36 - 39			
Mentally Ill Offenders	Indigent	05	36 - 39			
	Regular	05	36 - 39			
IMD - Like		05	36 - 39			
IMD (W/Patch) Sub-Acute (60 days)		05	38			
Adult Crisis Residential		05	40 - 49			
Residential Other		05	60 - 64			
Adult Residential		05	65 - 79			
Semi - Supervised Living		05	80 - 84			
Independent Living		05	85 - 89			
MH Rehab Centers		05	90 - 94			
B. DAY SERVICES						
Vocational Services		10	30 - 39			
Socialization		10	40 - 49			
SNF Augmentation		10	60 - 69			
Day Treatment Intensive: Half Day		10	81-84			
Day Treatment Intensive: Full Day		10	85-89			
Day Rehabilitative : Half Day		10	91-94			
Day Rehabilitative : Full Day		10	95-99			
C. OUTPATIENT SERVICES						
Targeted Case Management Services (TCMS), formerly Case Management Brokerage		15	01 - 09		\$1.59	7249, 7263, 7279, 7280, 7433, 7456, 7464
Mental Health Services		15	10 - 19 /30-59		\$1.84	7249, 7263, 7279, 7280, 7433, 7456, 7464
Therapeutic Behavioral Services (TBS)		15	58		\$1.84	7249, 7263, 7279, 7280, 7433, 7456, 7464
Medication Support		15	60 - 69		\$3.12	7249, 7263, 7279, 7280, 7433, 7456, 7464
Crisis Intervention		15	70 - 79		\$2.72	7249, 7263, 7279, 7280, 7433, 7456, 7464
D. OUTREACH SERVICES						
Mental Health Promotion		45	10 - 19		\$77.50	7249, 7263, 7279, 7280, 7433, 7456, 7464
Community Client Services		45	20 - 29		\$77.50	7249, 7263, 7279, 7280, 7433, 7456, 7464
E. SUPPORT SERVICES						
Life Support/Board & Care		60	40 - 49			
Case Management Support		60	60 - 69		\$77.50	7249, 7263, 7279, 7280, 7433, 7456, 7464
Flexible Funding (Cost Reimbursement)		60	64			
F. Medi-Cal Administrative Activities (MAA)						
MAA		55	01-35			



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION - LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

ATTACHMENT II

DAVID E. JANSSEN
Chief Administrative Officer

February 3, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavy
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

J. Tyler McCauley
Auditor-Controller

Marvin J. Southard, D.S.W.
Director of Mental Health

Board of Supervisors

GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

SETTLEMENT AGREEMENTS AND THE CASH FLOW LOAN PROGRAM

On December 17, 2002, your Board requested the Chief Administrative Office (CAO) and the Auditor-Controller, in consultation with affected departments, to develop procedures to prevent the need for settlement agreements as a result of cash flow loans. This request resulted from Board approval of a settlement agreement for a Department of Mental Health (DMH) contractor. At that time, your Board also requested that the CAO, Auditor-Controller, and County Counsel identify the best manner to secure a conscientious repayment schedule.

This report is to apprise your Board of improved controls over DMH cash flow loans. DMH anticipates that these controls, implemented over the last twelve months, will help prevent the need for future settlement agreements. Where settlement agreements are unavoidable, this report also identifies penalties and incentives to motivate timely repayments.

Improved Controls Over the DMH Cash Flow Loan Program

To reduce the financial risk to the County in providing cash flow loans, DMH has made substantive changes to improve its cash flow loan program. Significant accomplishments include the following:



- DMH now begins to recoup cash flow loans earlier in the fiscal year. For example, the term of the loan has been reduced to three months for most Short-Doyle Medi-Cal providers and five months for Short-Doyle Medi-Cal providers who serve children. The cash flow loan repayment begins in the 4th and 6th month, respectively. On October 1, 2002, your Board approved uniformity of terms and conditions to provide consistent methodology for cash flow loans.
- DMH has strengthened its procedures for regular provider monitoring and financial risk/viability analysis (financial statements, credit reports, on-site monitoring, etc.) to ensure that provider financial problems are identified timely, and that loans are provided only when they can be repaid.
- DMH continues to provide written status reports to an oversight working group regarding the steps taken to implement the Auditor-Controller's recommendations related to the cash flow loan program. Representatives from DMH, the CAO, County Counsel, the provider community, and others meet regularly to monitor progress toward improving cash flow loan program controls.

Timely Repayment of Settlement Agreements

In situations where contractors must repay the County funds (e.g., post-contract audit settlements), the standard DMH Legal Entity agreement allows providers to make cash payments to the County over a period not to exceed three months. Should the provider exceed the three month period, DMH negotiates a repayment settlement agreement. Any repayment settlement agreements must be approved by the Board.

Repayment settlement agreements help providers mitigate an immediate adverse cash flow impact, thereby enhancing the probability of recovery of County funds. Because this situation often occurs with smaller community-based agencies, many settlement agreements do not provide for penalties or interest payments on the unpaid balance.

On January 15, 2003, representatives from DMH, the CAO, Auditor-Controller, County Counsel, and the Association of Community Human Services Agencies (ACHSA) participated in an extensive discussion of potential penalties for providers who require a repayment settlement agreement. Based on this discussion, DMH will recommend that future repayment settlement agreements include the following:

- A moratorium on expansion and/or implementation of any new programs for this contractor during the period of repayment. Any exemption from this penalty would require justification that this restriction would negatively impact planned program services.

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- A requirement that contractors pay interest if the repayment period exceeds one year. That is, if the provider completes repayment within one year, interest charges will be waived. If payment is not completed within one year, interest would accrue back to the inception of the settlement agreement. (Interest would be accrued at a rate equal to the County's pool rate on investments per day on the original settlement amount, due commencing on the 366th day after the original settlement date.) Providers should not be allowed to use County-generated revenues to pay any interest penalties.
- A requirement that contractors provide DMH with a comprehensive financial plan to support the repayment schedule. DMH will verify the reasonableness of the plan's assumptions and projections.

We believe that DMH's improved controls over cash flow loans should help minimize settlement situations. If settlement situations do occur, the above recommendations will provide incentive to secure a conscientious and timely repayment of County monies.

Please let me know if you have any questions, or your staff may contact James Jones at (213) 974-1128.

DEJ:DIL
JEJ:RCP:kd

c: Executive Officer, Board of Supervisors
County Counsel
Director, Mental Health